

Service Date: June 11, 1996

DEPARTMENT OF PUBLIC SERVICE REGULATION  
BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MONTANA

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IN THE MATTER OF the Application of ) UTILITY DIVISION  
Montana Power Company to Change Rates )  
for Electric Service Based on its Allocated ) DOCKET NO. D96.3.33  
Cost of Service and Rate Design Study. ) ORDER NO. 5915

**FINAL ORDER/COST OF SERVICE**

APPEARANCES

FOR THE APPLICANT:

Michael Manion, Esq., Montana Power Company, 40 East Broadway,  
Butte, Montana 59701

FOR THE INTERVENORS:

Robert A. Nelson, Esq., Montana Consumer Counsel, 34 West  
Sixth Avenue, P.O. Box 201703, Helena, Montana 59620-1703

Donald W. Quander, Esq., Holland and Hart, 175 North 27th  
Street, Suite 1400, Billings, Montana 59101-2048, appearing on  
behalf of the Large Customer Group

FOR THE COMMISSION:

Michael H. Lee, Chief, Rate Design Bureau  
Robin A. McHugh, Chief Legal Counsel  
1701 Prospect Avenue, P.O. Box 202601, Helena, Montana 59620-  
2601

BEFORE:

NANCY MCCAFFREE, Chair  
DAVE FISHER, Vice Chair  
BOB ANDERSON, Commissioner  
DANNY OBERG, Commissioner  
BOB ROWE, Commissioner

FINDINGS OF FACT

Background

1. On August 16, 1993 the Montana Public Service Commission  
(Commission) received an application from the Montana Power Company

(MPC) for authority to change rates for electric service based on its allocated cost of service and rate design study. Docket No. 93.7.29. Rather than deciding the cost of service (COS) issues raised in the application, the Commission ordered that "electric cost of service shall continue to reflect Commission decisions in Docket No. 90.6.39, Order Nos. 5484n and 5484r." Order No. 5735c, p. 38. Instead of deciding the COS issues the Commission suggested that those issues be the subject of a collaborative, "to attempt to resolve or narrow differences among the parties on cost issues prior to the next COS/RD docket." Id. at 6. The Commission described its expectations for the collaborative as follows:

The Commission expects that contentious issues in generation, transmission and distribution costing will be addressed in the collaborative. Other issues that should be addressed are off-system opportunity sales values and the cost basis for off-peak winter and summer capacity. Other issues may appropriately be addressed as well, at the discretion of the collaborative. While the collaborative may not reach a consensus on each cost issue, it should attempt to narrow the range of differences that currently exist.

Id.

2. In response to Order No. 5735c a collaborative group was formed in the summer of 1994. Participation in the collaborative group was open to all. A letter of invitation to participate and an explanation of the collaborative was sent to a large service list containing the names of persons who were thought to have an interest in the subject of the collaborative. See JMF-1, attached to prefiled testimony of MPC witness James Falvey in this Docket.

Besides MPC, the following participated actively in the collaborative: Montana Consumer Counsel (MCC), Human Resources Council, District XI (HRC), Large Customer Group (LCG), Colstrip Energy Limited Partnership (CELP). Commission staff also participated actively, when appropriate.

3. On March 15, 1996 MPC filed an application with the Commission to change electric rates based on a new allocated cost of service and rate design study. Docket No. D96.3.33. The

application was noticed and intervention granted to the following: MCC, HRC, LCG, CELP, United States Executive Agencies, Bonneville Power Administration and Central Montana Electric Power Cooperative. As part of the application and as a direct result of the work of the collaborative, MPC submitted a stipulation between it and MCC, LCG and HRC. See JMF-3, attached to prefiled testimony of MPC witness James Falvey. The stipulation recommends to the Commission specific allocated cost of service class revenue responsibility results. On April 12, 1996 the Commission noticed a Deadline for Commitment to Contest COS Issues in this Docket. No party responded to the notice. The Commission staff issued several data requests on the stipulation. On May 1, 1996 the Commission noticed a hearing to consider the COS stipulation; the hearing was held on May 21, 1996.

4. The stipulation on cost of service realigns class revenue requirements and merges these impacts with the revenue increases that result from revenue requirement Order No. 5865d, Docket No. 95.9.128. Class revenue requirements are realigned due to the changed costs in the stipulation relative to the costs on which the current rates are based. The current rates are based on costs determined in Docket No. 90.6.39. The details on the actual stipulated costs are contained in MPC's prefiled direct testimony.

#### Discussion

5. The Commission compliments the collaborative members for their efforts in reaching the stipulation. The Commission finds that the stipulated costs are reasonable. The method of reconciliation and moderation of rate impacts contained in the stipulation are also reasonable. In addition, the Commission finds that the manner in which the stipulation's realigned rates are merged with the revenue impacts from Docket No. 95.9.128 is reasonable.

6. The following table indicates the combined impacts of the class revenue requirement realignment and the Docket No. 95.9.128 revenue increase. See MPC response to PSC data request 1-001.

<u>Class</u>	<u>Docket No. 96.3.33 Stipulated % Change (1)</u>	<u>Total Percentage (%) Change<sup>1</sup> (2)</u>	<u>Actual Percentage<sup>2</sup> (%) Changes July 1</u>
Residential	1.33	5.58	3.87
GS - Secondary	6.46	10.92	9.12
GS-Primary	-0.33	3.45	1.93
GS-Substation	-10.00	-6.23	-7.75
GS- Transmission	-10.00	-6.23	-7.75
Irrigation	-0.01	4.18	2.49
Lighting (all classes)	10.00	14.61	12.75

7. The Commission approves the stipulation. The Commission has certain concerns, however, which should be addressed in MPC's next COS filing.

8. First, based on staff data requests on the stipulation the Commission understands that the realigned lighting class revenue increase stems in large part from cost assumptions. These cost assumptions are not included in the stipulation but rather are embedded in MPC's own independent analysis. MPC apparently used

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<sup>1</sup> The total percentage changes in this column reflect the combined impact of the percentage changes in Column (1) and the 4.19% total change in Docket No. 95.9.128.

<sup>2</sup> These percentages reflect the remaining revenue requirement changes for each customer class that will occur on July 1, 1996. The balance of the changes was made on an interim basis in Order Nos. 5865b and 5865c, Docket No. 95.9.128, made final in Order No. 5865d.

embedded costs to, in large part, compute the lighting class cost of service. The Commission expects MPC will explain these cost assumptions when it next files a cost of service study. It is unacceptable to have a different and inconsistent use of costs for lighting classes relative to other customer classes.

9. The Commission's second and third concerns derive from the same operational constraint. Although these concerns are directed at the values the collaborative stipulated to for generation energy and capacity costs, they are targeted at and will require a response from MPC in its next cost of service study filing.

10. The collaborative's generation cost values are based on market opportunities. The value of generation energy reflects a nine-year levelized value for nonfirm energy sales opportunities.

The value of generation capacity is also market based. The actual values the collaborative stipulated to are an annual average 18.194/kwh energy cost and a \$4.94/kw capacity cost during the winter. The Commission is concerned that MPC compared these costs to long-term values when in fact MPC admits they are constrained by existing capacity. An axiom of economic reasoning is that capacity is fixed in the short term but variable in the long term. Therefore, if one alleges a long-term cost is estimated, one must have allowed for the mitigation of capacity constraints. MPC alleges in this Docket to have estimated long-term costs, but MPC's cost estimates do not allow for the mitigation of capacity constraints. This appears at odds with the above axiom. The Commission expects MPC to address this concern in its next cost of service study filing.

#### CONCLUSIONS OF LAW

1. All Findings of Fact are hereby incorporated as Conclusions of Law.

2. The Applicant, Montana Power Company, furnishes electric service for consumers in the State of Montana and is a "public utility" under the regulatory jurisdiction of the Montana Public Service Commission. Section 69-3-101, MCA.

3. The Montana Public Service Commission properly exercises jurisdiction over Montana Power Company's rates and operations. Section 69-3-102, MCA, and Title 69, Chapter 3, Part 3, MCA.

4. The Montana Public Service Commission has provided adequate public notice of all proceedings and an opportunity to be heard to all interested parties in this proceeding. Sections 69-3-303 and 69-3-104, MCA, and Title 2, Chapter 4, MCA.

5. The cost of service approved herein is just, reasonable, and not unjustly discriminatory. Sections 69-3-330 and 69-3-201, MCA.

ORDER

THE MONTANA PUBLIC SERVICE COMMISSION HEREBY ORDERS:

1. The electric cost of service stipulation submitted by MPC as part of its filing in this Docket is approved.

2. The Montana Power Company shall address the Commission concerns, expressed above, in its next cost of service filing.

3. The Montana Power Company shall coordinate this decision with its compliance with Order No. 5865d.

DONE AND DATED this 6th day of June, 1996 by a vote of 5 - 0.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

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NANCY MCCAFFREE, Chair

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DAVE FISHER, Vice Chair

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BOB ANDERSON, Commissioner

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DANNY OBERG, Commissioner

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BOB ROWE, Commissioner

ATTEST:

Kathlene M. Anderson  
Commission Secretary

(SEAL)

NOTE: Any interested party may request the Commission to reconsider this decision. A motion to reconsider must be filed within ten (10) days. See ARM 38.2.4806.